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Follow-up to the outcome of the Millennium Summit

Comments of the Joint Inspection Unit on the report of the Steering Committee on the Comprehensive Review of Governance and Oversight within the United Nations and its Funds, Programmes and Specialized Agencies

I. Introduction

1. The Secretary-General has transmitted to the General Assembly the report of the Steering Committee on the Comprehensive Review of Governance and Oversight within the United Nations and its Funds, Programmes and Specialized Agencies (A/60/883 and Add.1–2), which was prepared by PricewaterhouseCoopers (PwC) under the guidance of a Steering Committee of independent experts established by the Secretary-General.

2. The report contains many recommendations on governance and oversight for consideration by Member States. The Secretary-General endorses, inter alia, the recommendations to implement results-based management, to strengthen the accountability framework for senior management and to implement a framework for managing risk through enterprise-wide risk management and assign responsibility for internal controls. The Steering Committee's suggestions concerning the Independent Audit Advisory Committee (IAAC) have already been reflected in the report entitled "Updated terms of reference for the Independent Audit Advisory Committee" (A/60/846/Add.7), which have been submitted to the General Assembly. The Secretary-General does not comment on those governance and oversight recommendations of the report of the Steering Committee which fall strictly within the province of the intergovernmental organs, including recommendation 4 of volume IV that the "Joint Inspection Unit (JIU) be discontinued".

3. Volume V of the Steering Committee's report contains far-reaching conclusions concerning the Office of Internal Oversight Services (OIOS), on which the Secretary-General has provided some general observations, without, however, commenting on the detailed recommendations of the report. OIOS has submitted its own proposals for strengthening the Office (A/60/901), commenting on the

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recommendations made by the Steering Committee. JIU concurs with the assessment of OIOS that several of the Steering Committee's recommendations would weaken internal oversight in the United Nations rather than strengthen it.

4. JIU wishes to share with Member States its views on the report of the Steering Committee and its recommendations. In the view of JIU, while the report provides important recommendations for strengthening governance and oversight, it has some serious shortcomings that stem from a lack of proper and timely consultation, a limited understanding of how the United Nations system operates and in many cases a lack of analysis, basing conclusions on face-value statements rather than on ascertained facts.

5. JIU comments focus on the review process as such (sect. II below), on the recommendation to discontinue JIU (sect. III below), on the recommendations concerning OIOS (sect. IV below) and on the recommendations for strengthening oversight in the United Nations system, using the JIU report on oversight lacunae in the United Nations system (JIU/REP/2006/2) as a point of comparison (sect. V below and the annex). At this time, JIU has not made any comments on governance issues (vols. II and III), but intends to do so at a later stage.

6. As an annex to this paper, JIU has included a table that highlights those points where the JIU report on oversight lacunae in the United Nations system and the report of the Steering Committee (vols. IV and V) differ substantially. Many of these differences stem from a different philosophical approach to "oversight". The JIU report is based on the belief that oversight is ultimately the function of Member States; that it is a holistic and unitary function that goes substantially beyond internal audit; and that, therefore, the recommendations made therein must enfranchise the Member States to carry out that crucial function. The Steering Committee report on the other hand emphasizes oversight as a function of management (the subject of oversight) with Member States having a more limited and more remote role and considers oversight as heavily weighted to the audit function.

II. Lack of proper consultation in the review process

7. According to the terms of reference for the comprehensive review (A/60/568, annex II, para. 10): "The Steering Committee shall work in full consultation with OIOS, the Panel of External Auditors (including the Board of Auditors), the Joint Inspection Unit and the High Level Committee on Management, as necessary." Unfortunately, proper consultation did not take place, neither during the review process nor at the reporting stage. While JIU was interviewed by PwC on very general United Nations system oversight issues and while it was invited to present its report on oversight lacunae in the United Nations system (JIU/REP/2006/2) to the Steering Committee at its second meeting on 11 April 2006, no consultations took place on specific JIU issues. Apparently the Steering Committee did not consider it necessary to consult with JIU on any aspect of the review, not even on the grounds leading to their far-reaching recommendation to discontinue JIU. JIU notes that in that regard the Steering Committee did not work in compliance with its own terms of reference.

8. The recommendation to discontinue JIU is based on five paragraphs of text (sect. 4.3.1.4), totalling less than one page in the 250-page report. The text presented contains factual errors, misunderstandings and unsubstantiated statements. At no point did the Steering Committee or their consultants seek confirmation for the assertions they made nor did they request source documents such as the standards and guidelines of JIU or the JIU internal working procedures. JIU regrets that the Steering Committee and their consultant PwC missed the opportunity, prior to finalizing the report, to correct these factual errors, which led them to the wrong conclusions.

III. Comments on oversight recommendation 4 (discontinuation of the Joint Inspection Unit)

Misunderstanding of the Joint Inspection Unit mandate

9. The report of the Steering Committee (A/60/883/Add.2) states in volume IV, para. 22, "... the General Assembly has recently restricted the JIU mandate to focus on improving management and has also recently required collective approval of its work plan". The report is apparently referring to General Assembly resolution 59/267 of 23 December 2004, which states (para. 18) "... that the Unit shall mainly focus on identifying means to improve management and to ensure that optimum use is made of available resources ...". The same resolution states (para. 13) "... that the programme of work of the Unit shall be collectively approved, providing ... the relevance of the envisaged outcome to improving management and methods and promoting greater coordination between organizations".

10. In no way did the General Assembly restrict the mandate; it simply re-emphasized that, according to the JIU statute (art. 5), inspections and evaluations should be "aimed at improving management and methods and at achieving greater coordination between organizations" and requested JIU at that time to focus on improved management. Previously, in its resolution 57/284 A of 20 December 2002, the General Assembly had requested JIU to focus on evaluation. In the same manner, in its resolution 56/245 of 24 December 2001, the Assembly had asked JIU to put emphasis on, inter alia, "well-defined and timely items of high priority". Resolution 59/267 also re-emphasized the principle that "the programme of work of the Unit shall be collectively approved" (art. 9 of the statute). JIU fails to understand how the Steering Committee could interpret resolution 59/267 or any of the others as restricting the Unit's mandate, when the resolution's preamble reaffirms previous resolutions, which had confirmed this mandate.

No supporting analysis

11. The report also states (para. 23) "that questions have been consistently raised regarding the methods, procedures, capabilities, productivity and quality of output of the JIU, along with concerns about JIU independence, technical qualifications and professional standards". This sweeping statement has not been substantiated and the report does not show that an assessment of the Unit's capacities, methods, procedures, etc. has been conducted.

Lack of understanding of follow-up system

12. Furthermore, the report states (para. 23) that "the governing bodies which receive the JIU reports do not consistently follow up on its recommendations, which in turn raises questions about the benefits of the work of the JIU". The Unit wishes to point out that follow-up on oversight recommendations is a challenge for each and every oversight office. Since oversight recommendations, by nature, are not mandatory, their acceptance and eventual implementation often require repeated follow-up and lengthy discussions. JIU is not unique in that regard, but the system-wide nature of many of its recommendations makes the follow-up process even more complex and challenging; yet important advances have been made in this respect as reflected in the Unit's annual report. The Unit also wishes to recall that the General Assembly has stressed that the impact of JIU is a "shared responsibility of the Member States, the Unit and the secretariats of the participating organizations" (resolution 50/233 of 7 June 1996).

13. In this context it is interesting to note that the Steering Committee reports a less than 50 per cent implementation rate on OIOS recommendations (vol. V, sect. 5.5.7, observation 7), which the report attributes, inter alia, to a lack of concurrence between management and OIOS on certain audit findings (low acceptance rate); yet, and rightly so, the report does not draw the conclusion that this raises questions about the benefits of the work of OIOS and that OIOS should be discontinued. It is worthwhile to mention that JIU, for its single-agency reports issued during 2002–2004, had reached an acceptance rate of 90 per cent by the end of 2005. For system-wide reports, the acceptance rate tends to be somewhat lower and implementation takes more time.

14. Moreover, the follow-up on recommendations is not the only indicator to gauge the relevance of the Unit. In the last several years, JIU has been asked by governing bodies, Member States and secretariats to prepare specific reports and look into a number of matters of concern to these entities, e.g., International Labour Organization (ILO), Office of the High Commissioner for Human Rights (OHCHR), United Nations Convention to Combat Desertification (UNCCD), World Intellectual Property Organization (WIPO), World Meteorological Organization (WMO), management issues of peacekeeping, etc. The United States Government Accountability Office (GAO)[1] has used the work of JIU as input for their work, as has the Office of the Auditor General of Canada. JIU has therefore no doubt that its work adds value, is of use to intended audiences, is relevant, topical and factually correct. The General Assembly, in its recent resolution 60/258 of 8 May 2006, explicitly welcomed the efforts to improve the quality of the reports issued and also the improvements made in the implementation of the reform process.

Alleged risk of duplication

15. The report suggests (para. 24) that"[i]n the context of a robust, comprehensive oversight framework throughout the UN system, the JIU may duplicate the activities of existing oversight mechanisms". As one of the measures towards such a framework, the report recommends to "[s]et new standards for oversight of inter-agency programmes" and have audits and evaluations of such cross-agency programmes "carried out by one entity in an integrated fashion", to be covered by shared and coordinated OIOS resources.

16. The Unit welcomes any measures that will lead to a more robust and comprehensive oversight framework, but notes that the recommendations made are mainly geared towards strengthening internal oversight mechanisms. While a robust, comprehensive oversight framework at the level of the secretariats is warranted, this would in no way render a system-wide external oversight mechanism redundant. The Unit noted that even the Steering Committee did not draw a firm conclusion in that regard, but put it in a rather speculative way ("*may* duplicate"). The Unit wishes to stress that, as in other areas, coordination among the agencies' internal and external oversight bodies and JIU is key to ensuring there is no duplication.

17. The Steering Committee's recommendation for integrated (internal) oversight of inter-agency programmes has merits, insofar as activities carried out by the funds and programmes under the authority of the Secretary-General are concerned, where OIOS could be mandated to assume the oversight functions or at least their coordination. However, as far as cross-agency activities involving specialized agencies are concerned, the proposed integrated oversight approach would meet legal boundaries as OIOS has no mandate in that respect. Such cross-agency audits would therefore only be possible on the basis of voluntary cooperation. Unlike JIU, which has a system-

[1] "United Nations: funding arrangements impede independence of internal auditors" (GAO-06-575), p. 39.

wide mandate, already approved by the governing bodies, other existing oversight mechanisms would depend on the agreement of the administrations and/or governing bodies of the various agencies concerned. This would weaken the oversight provided.

Misunderstanding of the JIU oversight role

18. The report concludes (para. 25) that the "General Assembly's decision to focus the JIU's work on identifying means to improve management and to ensure optimum use of available resources indicates a role more related to research and learning rather than oversight" and that "[s]uch a role usually resides within the mandate of executive management". Again, this conclusion seems to be based on a misunderstanding of the Assembly resolution and the underlying provisions of the JIU statute. The focus on management issues, optimum use of resources and greater coordination between organizations lies at the heart of the JIU mandate (art. 5 of the statute). It refers to an inspection and management audit function, not to academic research or management consulting. JIU is an operational oversight body providing watchful care and supervision (common definition of oversight) in the participating organizations that have adopted the JIU statute. JIU can point to many instances where, as a result of its reports on management oversight, bad or questionable practices by executive management have been eliminated. The suggestion that executive management, perhaps the United Nations System Chief Executives Board for Coordination (CEB), should cover matters of cross-agency research is not questioned by JIU. But this suggestion refers to research, not oversight, and therefore has no bearing on JIU functions and activities.

Some implications of discontinuing JIU

19. The General Assembly has recently reaffirmed, in its resolution 60/258, "the unique role of the Unit as the only system-wide external oversight body". As a system-wide oversight body, the Unit is responsible to the General Assembly and similarly to the legislative bodies of the other participating organizations (art. 1 of the statute). This is a reflection of the unique character of the United Nations system itself. The discontinuation of JIU, as recommended by the Steering Committee, would deprive Member States of this independent system-wide oversight body, reporting directly to legislative bodies, and would result in a structural gap in oversight in the United Nations system. JIU, inter alia, looks at system-wide themes and issues that cannot be looked at by any other existing oversight body. It performs individual and system-wide management reviews. JIU by its statute is necessarily independent from any single Member State or organization. Even with a strengthened oversight system for all agencies, the JIU role would still be required as no other independent entity could perform these functions. For instance, the system-wide mandate allowed JIU to look into the use of the United Nations laissez-passer across the United Nations system, an area where an OIOS audit had raised major security concerns, but where OIOS could go no further in the absence of a system-wide mandate. The system-wide mandate also allowed JIU to develop a benchmarking framework for the implementation of results-based management in the United Nations system, a framework that has been endorsed by the General Assembly on the recommendation of the Committee for Programme and Coordination (resolution 60/257 of 8 May 2006). JIU also plays an important role in cases where the oversight framework of an individual organization turns out not to be sufficiently robust; recent reviews of WIPO and WMO have demonstrated the need for such an oversight provider of last resort.

IV. Comments on recommendations concerning the Office of Internal Oversight Services

20. Volume V of the report on the comprehensive review of governance and oversight is entitled "Review of Office of Internal Oversight Services ('OIOS')" (hereinafter referred to as "the review of OIOS") and contains detailed recommendations for strengthening OIOS, 23 of which are summarized in the Executive Summary.

21. The review of OIOS sees internal oversight essentially as a function limited to internal audit only and consequently recommends transferring other functions (investigations, inspections and evaluations) out of OIOS to other offices of the Secretariat. JIU fails to understand how such a dismantlement of OIOS could strengthen internal oversight in the United Nations and strongly believes that internal oversight consists of several distinct, but complementary and synergetic functions. Furthermore, JIU believes that the implementation of the recommendations on this point would result in important issues of conflict of interest.

22. The review of OIOS recommends that OIOS should be overseen by IAAC, which should advise the General Assembly on significant issues arising from OIOS activities. JIU wishes to recall that, conceptually, audit committees are subcommittees of the governing body ("Board"), with their members appointed by the Board, and that they assume oversight responsibility over the internal audit function on behalf of the governing body. Given the planned composition and selection of the members of IAAC, JIU is concerned that a body, whose members are hand-picked ("nominated") by the Secretariat, though subject to approval by the Assembly, would oversee and to some extent control the Secretariat's oversight office.

23. The review of OIOS recommends that the General Assembly should clearly define the organizations for which OIOS should perform internal audit services. Given certain grey areas, in particular in the separately administered funds and programmes, JIU agrees that there is a need to clearly define for which of the activities under the responsibility of the Assembly OIOS should perform internal oversight services. As far as activities outside the responsibility of the Assembly are concerned, the provision of oversight services by OIOS cannot be mandated. Each organization of the United Nations system is independent and only their governing bodies can decide what is the best arrangement to provide themselves with the necessary oversight services.

24. The review of OIOS recommends that its budget should be based on a work plan, which in turn should be based on an assessment of risk. It also calls for upgrading the annual risk assessment methodology used by OIOS. JIU concurs with the principle that internal oversight work plans should be based on a risk assessment, a standard requirement under the International Standards for the Professional Practice of Internal Auditing. JIU wishes to point out, however, that risk assessment is based on a number of assumptions, each of which contains certain subjective elements and requires judgement calls, which in turn can heavily influence the level of resources required. The results of a risk assessment cannot therefore be automatically translated into resource requirements. The Unit believes that a simple formula, determining a certain overhead rate to be applied to all activities, could facilitate the allocation of funds for oversight and could serve as a baseline, which could be fine-tuned based on a comprehensive risk assessment.

25. The review of OIOS recommends a substantially longer (7–10 years) or a renewable term of office for the Head of OIOS. JIU, in its report on oversight lacunae, cautions against a renewable term of office, which may weaken independence.

26. The review of OIOS recommends that OIOS should retain its own policies for recruitment, deployment, promotion and termination of staff, including an expedited hiring process at the discretion of OIOS management. JIU concurs that the Head of OIOS needs a large degree of authority and flexibility to ensure access to the skills necessary to perform its internal oversight duties. The Unit wishes to recall, however, that such authority and flexibility needs to be exercised within the framework of United Nations staff regulations, rules and policies, given that OIOS staff members are staff members of the Organization.

27. The review of OIOS recommends strengthening the professional practices function (audit methodology, best practices, performance measures), upgrading information and communication technology (ICT) skills and increasing the use of information technology (IT) tools within OIOS. JIU concurs with these recommendations, which stem from the application of internal auditing standards.

V. Comments on recommendations for strengthening oversight in the United Nations system: a comparison between the Joint Inspection Unit and the Steering Committee approach

28. In early 2006, JIU issued a report on oversight lacunae in the United Nations system (JIU/REP/2006/2). This report was based on a review of all organizations of the United Nations system (United Nations Secretariat, funds and programmes, specialized agencies and the International Atomic Energy Agency (IAEA) and contains a set of recommendations to strengthen oversight in the United Nations system as well as a detailed gap analysis and suggested standards in its annex.

29. The report on the comprehensive review of governance and oversight, which has just been completed by PwC and which is based on an in-depth review of OIOS, three funds and programmes and one specialized agency, also contains a set of recommendations for enhanced oversight in the United Nations system (vols. IV and V).

30. While both reports are in agreement on several of the measures recommended (e.g. establishment of an ethics function; financial disclosure requirements; establishment of an independent audit/oversight advisory body; term limits for the Head of Internal Oversight), there are some important differences in the overall concept and the measures recommended. To facilitate a comparison between the two options proposed, JIU has highlighted the main differences in table format in the annex.

Annex

JIU report on oversight lacunae	Report on comprehensive review of governance and oversight
➢ The Oversight Board should be composed of up to seven members with prior experience in oversight, elected by the legislative body, all of whom shall be representatives of Member States. It should also include at least one external adviser with recognized expertise in oversight matters. ***JIU comment**: The proposal strengthens the role of Member States in oversight.*	➢ The Independent Audit Advisory Committee (IAAC) should comprise 10 expert members, nominated by the Secretary-General and subject to the approval of the General Assembly. ***JIU comment**: The proposal strengthens the role of the secretariats.*
➢ The Oversight Board would deal with all oversight matters, both internal and external. ***JIU comment**: The proposal is based on a holistic concept of oversight.*	➢ The Committee would deal with internal and external audit matters, not with investigation or evaluation matters. ***JIU comment**: The proposal seems to equate oversight with audit only and risks fragmenting oversight.*
➢ The Oversight Board would evaluate the overall efficiency and effectiveness of the external auditor and the internal oversight service. ***JIU comment**: The proposal ensures an assessment of the oversight activity's efficiency and effectiveness without limiting their independence to select areas for oversight.*	➢ The Committee would assess the work of OIOS, and the effectiveness and objectivity of the internal audit process. ➢ The Committee would review and approve the internal audit work plan and comment on and contribute to the work plan of the external auditor. ***JIU comment**: The proposal limits independence of the internal audit function by subjecting internal audits to an approval requirement.*
➢ Term limits should be established for the external auditors. ***JIU comment**: The proposal aims at strengthening the independence of the external audit.*	➢ No explicit recommendation made, although the report raises concerns about rotation of external auditors in some cases, which may affect independence.

JIU report on oversight lacunae	Report on comprehensive review of governance and oversight
➢ The Internal Oversight Service should comprise the following functions: audit, inspection, investigation and evaluation. Management consulting should not be positioned in the internal oversight unit. ***JIU comment**: The recommendation encourages looking at all aspects of oversight as complementary and mutually reinforcing.*	➢ OIOS should focus on internal auditing. Investigations, monitoring, evaluation or consulting services should be positioned elsewhere. ***JIU comment**: The proposal seems to equate internal oversight with internal audit and would disintegrate the various oversight functions.*
➢ United Nations system organizations should establish, as part of their internal oversight unit, a minimum in-house capacity for investigations, comprised of qualified and experienced professional investigators who would not be subject to rotation within that organization. ***JIU comment**: The proposal aims at strengthening investigative capacity as a part of internal oversight.*	➢ Investigation functions should operate as a separate, objective activity under the Legal Office. ***JIU comment**: The proposal does not recognize the oversight character of investigations and would result in a serious conflict of interest situation, by putting those who investigate and those who decide on the consequences of an investigation, in the same office.*
➢ Investigation entities should be authorized to initiate investigations without interference from senior management. ***JIU comment**: The proposal aims to strengthen investigation.*	➢ The process of launching an investigation should involve executive management. Executive management should determine whether an investigation is warranted. ***JIU comment**: The proposal may result in a situation where the fox is requested to guard the chicken coop.*
➢ There should be independent reporting procedures for investigations. ***JIU comment**: The proposal aims to strengthen investigations.*	➢ No explicit recommendation.

JIU report on oversight lacunae	Report on comprehensive review of governance and oversight
➢ For the Head of Internal Oversight a non-renewable tenure of 5–7 years should be established, with no expectation of any further employment within the same United Nations organization at the end of the term.	➢ The term limit for the Head of OIOS should be reviewed: either a substantially longer non-renewable term (7–10 years) or a term of 5–7 years renewable once.
***JIU comment**: The proposal would strengthen the independence of the Head of Internal Oversight.*	***JIU comment**: The proposed possibility of term renewal risks fostering dependence.*
➢ The establishment and size of internal oversight services should be based on certain standards and metrics; for organizations that manage biennial resources of at least US$ 250 million, an internal oversight unit is justified.	➢ The size and resource requirements of the Internal Oversight Service should be determined based on the degree of risk and management's tolerance for risk.
***JIU comment**: The proposal offers benchmarks to determine the adequacy of internal oversight resources, while leaving room for a case-by-case review.*	***JIU comment**: The recommendation does not offer any benchmarks, but leaves it to the determination of risk.*
➢ For those organizations that manage biennial resources of less than US$ 250 million, internal oversight services should be provided in-house by any other organization in the United Nations system that has the capacity to respond.	➢ The General Assembly should define those United Nations organizations for which OIOS has responsibility to provide internal audit services. These should include (a) all organizations that currently do not have a separate internal audit function; and (b) all operations that involve more than one fund, programme or other United Nations activity under the authority of the General Assembly.
***JIU comment:** The proposal leaves room for several options to provide internal oversight services for small organizations in-house .*	***JIU comment:** The proposal does not seem to take into account that the provision of oversight services by OIOS to a specialized agency requires the agreement of that agency.*
➢ Establishment of financial disclosure requirements for all elected officials and all staff at the D-1 level and above, as well as all Professional-level oversight staff.	➢ Appropriate disclosure requirements for the executive management and members of independent expert committees, such as audit committees.
***JIU comment:** The proposal extends disclosure requirements beyond executive management to include all D-1 and above as well as all Professional-level oversight staff.*	***JIU comment**: The proposal does not specify where executive management starts.*